

Message Text

PAGE 01 STATE 032540
ORIGIN EA-12

INFO OCT-01 ISO-00 ONY-00 /013 R

CONFIDENTIAL

DRAFTED BY EA/EP:STAFF:SRP
APPROVED BY EA/EP:AGEBER
DESIRED DISTRIBUTION
EA ONLY

-----076300 080056Z /70

R 072308Z FEB 78
FM SECSTATE WASHDC
TO ALL EAST ASIAN AND PACIFIC DIPLOMATIC POSTS

C O N F I D E N T I A L STATE 032540

STADDIS////////////////////////////////////
NO DISTRIBUTION OUTSIDE EA; PASS USADB FOR AMBASSADOR ONLY

E.O. 11652: GDS

TAGS: EGEN, ECON, XC, XE, XP

SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT
FEBRUARY 7, 1978

1. OECD SECGEN'S SPEECH AT CHATHAM HOUSE (UNCLASSIFIED)

IN A THOUGHTFUL SPEECH OECD SECGEN VAN LENNEP LISTED
FOUR MAIN PROBLEM AREAS STANDING IN THE WAY OF A
SUCCESSFUL STRATEGY FOR OBTAINING NON-INFLATIONARY
CONFIDENTIAL

PAGE 02 STATE 032540

SUSTAINED GROWTH IN THE OECD AREA. THESE ARE:
ENERGY, CITING NEED FOR AN EFFECTIVE US ENERGY POLICY;
INVESTMENT, CITING THE NEED TO IMPROVE PROFIT LEVELS,
RESTORE DEMAND AND MINIMIZE BUSINESS UNCERTAINTY;
BALANCE OF PAYMENTS ADJUSTMENTS; AND STRUCTURAL
ADAPTATION, CITING THE DANGER OF PURELY DEFENSIVE POLICY
REACTIONS TO PRESSURES ON SPECIFIC SECTORS. ON THIS
LATTER POINT VAN LENNEP ARGUES STRONGLY FOR POSITIVE
POLICIES WHICH ENCOURAGE NEW AND PROMISING ACTIVITIES
RATHER THAN SIMPLY PROLONG THE LIFE OF WEAK COMPANIES
OR SECTORS. VAN LENNEP CONCLUDES THAT "THE PROSPECTS
FOR 1978 ARE NOT FULLY SATISFACTORY IN SEVERAL ASPECTS.
WE ARE FACING A COMPLEX SET OF INTER-RELATED CONJUNCTURAL
AND STRUCTURAL PROBLEMS AT BOTH THE NATIONAL AND
INTERNATIONAL LEVEL. THEY ARE GOING TO BE WITH US FOR

SEVERAL YEARS TO COME."

2. SOVIET ATTACK ON US POLICY TOWARD ASEAN (CONFIDENTIAL)

THE SOVIET UNION ATTACKED THE US-ASEAN DIALOGUE IN A RECENT PRAVDA ARTICLE, PORTRAYING IT AS A US EFFORT TO USE ASEAN FOR POLITICAL AND MILITARY OBJECTIVES IN ASIA. OAKLEY'S VISIT TO AREA IN PREPARATION OF US-ASEAN MEETING THIS SUMMER WAS MENTIONED IN THIS CONTEXT.

3. GOS VIEWS ON ASEAN INDUSTRIAL COMPLEMENTATION (CONFIDENTIAL)

RANKING SINGAPORE ECONOMIC OFFICIALS CANDIDLY EXPRESSED SERIOUS GOS RESERVATIONS ABOUT ASEAN INDUSTRIAL COMPLEMENTATION EFFORTS IN A RECENT MEETING WITH REPRESENTATIVES OF THE AMERICAN BUSINESS COUNCIL IN CONFIDENTIAL

PAGE 03 STATE 032540

SINGAPORE. STRESSING THAT THE GOS IS FIGHTING AN UPHILL STRUGGLE TO TRY TO STEER ASEAN TOWARDS TRADE LIBERALIZATION RATHER THAN INDUSTRIAL COMPLEMENTATION, THE GOS OFFICIALS WERE SKEPTICAL OF THE PROSPECTS FOR THE ASEAN INDUSTRY CLUBS, THOUGHT THEY MIGHT DO MORE HARM THAN GOOD. THEY WERE SIMILARLY SKEPTICAL OF THE OUTLOOK FOR THE ASEAN INDUSTRIAL PROJECTS AND WERE NEUTRAL ON THE IDEA OF FORMING A US-ASEAN BUSINESS COUNCIL, POINTING OUT THERE IS NO SINGLE EFFECTIVE ASEAN ENTITY WITH WHICH TO INTERACT. ON THE US-ASEAN DIALOGUE, THE GOS OFFICIALS CONTENDED THE NEXT MEETING WILL BE AN EXTREMELY IMPORTANT INDICATOR OF THE UTILITY OF THE DIALOGUE, BUT THEY HAD NO SPECIFIC IDEAS ON HOW MOMENTUM COULD BE SUSTAINED.

4. NAC DISCUSSION OF IFI REPLENISHMENTS (CONFIDENTIAL)
AT THE FEBRUARY 1 NAC ALTERNATES MEETING ON THE PROPOSED US CONTRIBUTIONS TO IFI REPLENISHMENTS, HENRY OWEN OF THE NSC ASKED THAT A PRESIDENTIAL DECISION MEMORANDUM BE PREPARED ANALYZING OUR OVERALL APPROACH TO IFI CONTRIBUTIONS AND SETTING FORTH OPTIONS FOR SPECIFIC REPLENISHMENTS. ALSO, THAT CONGRESSIONAL CONSULTATIONS SHOULD BE UNDERTAKEN BEFORE THE US INDICATED ITS POSITION ON ANY REPLENISHMENTS. TREASURY PROPOSED THAT A 5 PERCENT REAL ANNUAL GROWTH BE USED AS THE STANDARD FOR FUTURE IFI LENDING GROWTH RATES. TREASURY SUGGESTED THAT THE US SHOULD SUPPORT A 1.8 BILLION DOLLAR ADF III REPLENISHMENT OVER FOUR YEARS, COMPARED TO THE BANK'S PROPOSAL OF 2.15 BILLION DOLLARS. THE US SHARE WOULD BE 22.24 PERCENT OR ABOUT 100 MILLION DOLLARS PER YEAR, COMPARED TO AN ANNUAL US CONTRIBUTION OF 60 MILLION DOLLARS FOR ADF II. STATE PROPOSED A RANGE OF 1.8-2.0 BILLION DOLLARS DEPENDING ON

OTHER DONORS' VIEWS. (EB FAVORS THE LOWER SIDE OF THIS

RANGE WHILE EA/AID FAVORS 2.0 BILLION DOLLARS.) THESE TWO OPTIONS WILL BE SUBMITTED TO THE PRESIDENT, BUT IT APPEARS THAT THE US WILL NOT BE READY TO TAKE A DEFINITIVE POSITION BY THE FEBRUARY 12-14 PLEDGING SESSION IN GENEVA. CONFIDENTIAL

PAGE 04 STATE 032540

5. OPEC LOAN TO VIETNAM (LIMITED OFFICIAL USE)

THE OPEC SPECIAL FUND PLANS TO LOAN 7 MILLION DOLLARS TO SRV FOR A FISHERIES DEVELOPMENT PROJECT. THE LOAN WOULD REHABILITATE AND MODERNIZE FISHING VESSELS ENABLING VIETNAM TO INCREASE ITS FISH CATCH BY AN ESTIMATED 126,000 MT ANNUALLY. THE BANK EXPECTS TO BE ASKED TO ADMINISTER THIS LOAN AND CONSEQUENTLY THE ADB BOARD IS BEING INFORMED, BUT NO BANK FUNDS ARE INVOLVED. WE CONSEQUENTLY DO NOT BELIEVE THE OPEC LOAN FALLS WITHIN THE PRESIDENT'S PLEDGE TO OPPOSE IFI LENDING TO VIETNAM.

6. HOUSE LEADERSHIP DEFERS ACTION ON US PARTICIPATION IN IMF (WITTEVEEN) FACILITY (LIMITED OFFICIAL USE)

THE HOUSE LEADERSHIP DECIDED, FEBRUARY 3, TO POSTPONE CONSIDERATION ON THE HOUSE FLOOR OF THE LEGISLATION AUTHORIZING THE US PARTICIPATION IN THE IMF'S SUPPLEMENTARY FINANCING OR WITTEVEEN FACILITY. THE DECISION WAS MADE AFTER A COUNT OF HOUSE MEMBERS SUPPORTING THE BILL REVEALED THAT THE LEGISLATION HAD AN INSUFFICIENT MARGIN OF SUPPORT TO GUARANTEE ITS PASSAGE. TONY SOLOMON ACKNOWLEDGED PUBLICLY THAT THE ADMINISTRATION'S EFFORTS TO EXPLAIN ADEQUATELY WHAT THE IMF DOES AND HOW IT OPERATES WERE INSUFFICIENT. IT NOW APPEARS THAT THE BILL WILL BE RESCHEDULED FOR FLOOR CONSIDERATION THE WEEK OF FEBRUARY 20TH. THERE ARE AT LEAST FOUR AMENDMENTS SCHEDULED FOR CONSIDERATION AT THAT TIME, ONE OF WHICH, A HUMAN RIGHTS AMENDMENT BY REP. HARKINS AND STEERS, APPEARS TO HAVE A GOOD CHANCE OF ADOPTION. FAILURE OF US APPROVAL OF THE WITTEVEEN FACILITY, (AFTER EARLIER US RENEGING ON THE OECD SAFETY NET) WOULD BE A MAJOR BLOW CONFIDENTIAL

PAGE 05 STATE 032540

AND SEVERELY UNDERMINE US LEADERSHIP ROLE IN INTERNATIONAL MONETARY FIELD.

7. MTN (CONFIDENTIAL)

PRELIMINARY ANALYSIS INDICATES THAT THE US TARIFF OFFER RESULTS IN AN AVERAGE DEPTH OF CUT FOR ASEAN COUNTRIES OF 33.8 PERCENT. OUR LESS THAN FORMULA CUTS ON TEXTILES, LEATHER PRODUCTS AND COMMUNICATION EQUIPMENT/NON-CONSUMER ELECTRONIC PRODUCTS ARE THE MAIN REASON FOR THE AVERAGE FALLING BELOW THAT FOR ALL MTN PARTICIPANTS (43 PERCENT). STR STRAUSS HAS INDICATED IN HIS TALKS WITH LDCS IN GENEVA,

AND SUBSEQUENTLY ASKED OUR EMBASSIES TO REINFORCE HIS STATEMENT, THAT THE US IS PREPARED TO GIVE MORE THAN IT RECEIVES IN ITS NEGOTIATIONS WITH DEVELOPING COUNTRIES; NEVERTHELESS SOME CONTRIBUTIONS FROM THEM TO TRADE LIBERALIZATION WILL BE NECESSARY. STRAUSS ALSO ENCOURAGED THE LDCS TO MAKE THEIR INTERESTS KNOWN TO US BY MARCH 1 SO THAT THEY CAN BE GIVEN FULL CONSIDERATION.

AMBASSADOR WOLFF'S VISIT TO MALAYSIA RESULTED IN A HIGH LEVEL MALAYSIAN COMMITMENT TO THE SUCCESSFUL CONCLUSION IN JULY ON THE MTN AND SIGNIFICANT MOVEMENT TOWARDS AN EARLY ACCORD ON TROPICAL PRODUCTS INCLUDING RECIPROCITY. MALAYSIAN WORKING LEVEL OFFICIALS HAVE AGREED TO RESUBMIT THE US REQUEST LIST AT THE POLITICAL LEVEL. IF APPROVAL IS FORTHCOMING, THEY WOULD ATTEMPT TO WORK OUT A TROPICAL PRODUCT AGREEMENT IN GENEVA BY MARCH 1. THEY WOULD DEAL WITH THE ASEAN STATES AT AN APPROPRIATE TIME. HOWEVER, THERE REMAINS THE PRESENTATIONAL PROBLEM OF A FORMAL AGREEMENT AS MALAYSIA DOES NOT WISH TO DEPART FROM LDC SOLIDARITY. STILL, AFTER MEXICO, WHICH ALREADY CONCLUDED A TROPICAL PRODUCTS PACKAGE WITH US, INDIA AND MALAYSIA -- AND POSSIBLY THE PHILIPPINES -- MAY BE NEXT TO COME TO TERMS WITH OUR DEMAND FOR SOME RECIPROCITY. PM LEE PROMISED WOLFF TO DO EVERYTHING IN HIS POWER TO BRING ALONG LDCS IN MTN, BECAUSE HE FELT MTN WAS VITAL PART OF WORLD-WIDE ECONOMIC RECOVERY.

CONFIDENTIAL

PAGE 06 STATE 032540

8. GSP (UNCLASSIFIED)

EA COUNTRIES ONCE AGAIN WERE THE MAIN BENEFICIARIES OF THE US GSP. OF THE 3.9 BILLION DOLLARS WORTH OF GOODS WHICH ENTERED THE US DUTY FREE UNDER GSP IN 1977, EA COUNTRIES SUPPLIED 2.2 BILLION DOLLARS (56 PERCENT). THE ROC, KOREA AND HONG KONG WERE THE TOP THREE USERS OF GSP (1.9 BILLION DOLLARS OR 49 PERCENT) WHILE SINGAPORE (106.7 MILLION DOLLARS OR 3.7 PERCENT) AND THE PHILIPPINES (77.5 MILLION DOLLARS OR 2 PERCENT) NUMBERED AMONG THE TOP TEN.

9. TROPICAL TIMBER (LIMITED OFFICIAL USE)

UNLIKE PREVIOUS MEETING, THE THIRD PREPARATORY MEETING TO POSSIBLE COMMODITY AGREEMENT NEGOTIATIONS ON TROPICAL TIMBER (OF SOME IMPORTANCE TO SEA COUNTRIES) WAS CONGENIAL AND AGREEMENT WAS QUICKLY REACHED ON A COMPROMISE WORK PROGRAM. THE FINAL OUTCOME OF THE UNCTAD TROPICAL TIMBER EXERCISE REMAINS UNCERTAIN LARGELY BECAUSE THERE IS A STRONG DIVERGENCE OF VIEWS WITHIN THE PRODUCER CAMP WHICH WILL BE HARD TO PAPER OVER AT THE FOURTH PREPARATORY. FURTHER OBSCURING THE SCENE IS THE EXTREMELY LOW PROFILE ADOPTED BY THE JAPANESE, WHO ARE THE WORLD'S LARGEST CONSUMER.

10. EPG STRUCTURE (LIMITED OFFICIAL USE)

THE INTERAGENCY ECONOMIC POLICY GROUP HAS EXPANDED ITS STRUCTURE. A CABINET LEVEL STEERING GROUP UNDER SECRETARY BLUMENTHAL'S CHAIRMANSHIP WILL CONTINUE TO MEET FOR BREAKFAST ON THURSDAYS TO COORDINATE DOMESTIC AND INTERNATIONAL ECONOMIC POLICY ISSUES. THIS GROUP WILL REGULARLY INCLUDE STATE -- MR. COOPER, CEA, NSC, OMB AND CONFIDENTIAL

PAGE 07 STATE 032540

EIZENSTAT. STR AND OTHERS WILL ATTEND AS APPROPRIATE. AN ASSISTANT SECRETARIES GROUP WILL MEET ON MONDAY MORNINGS, WHICH WILL FOCUS ON INTERNATIONAL ISSUES AND PREPARE ISSUES FOR THE STEERING GROUP. CHAIRMANSHIP WILL BE ROTATED AMONG KATZ, BERGSTEN AND HENRY OWEN.

11. UN OVERVIEW MECHANISM (LIMITED OFFICIAL USE)

THE NEW COMMITTEE OF THE WHOLE TO OVERVIEW THE NORTH-SOUTH DIALOGUE, ESTABLISHED BY THE 32ND UN GENERAL ASSEMBLY, WILL HOLD ITS INITIAL SESSION BEGINNING FEBRUARY 13 TO CONSIDER THE ORGANIZATIONAL STRUCTURE AND THE AGENDA FOR THE OVERVIEW. THE USG IS UNDERTAKING A DETERMINED EFFORT TO SHAPE THE COMMITTEE INTO A FORUM FOR SENIOR DISCUSSION OF THE BROAD DIRECTIONS OF INTERNATIONAL ECONOMIC POLICY, WHILE LEAVING THE SPECIFIC ISSUES TO BE WORKED OUT IN SPECIALIZED FORA. THE G-77, FOR ITS PART, WILL UNDOUBTEDLY SEEK MORE SPECIFIC ROLES FOR THE OVERVIEW FUNCTION. ORGANIZATIONALLY, THE USG BELIEVES IT IS ESSENTIAL TO ESTABLISH A SMALL GROUP OF PERHAPS 15 TO 20 MEMBERS TO CONDUCT MUCH OF THE COMMITTEES WORK, IF THERE IS TO BE ANY EFFECTIVE DIALOGUE. WHILE THERE IS LIKELY TO BE CONSIDERABLE OPPOSITION TO ESTABLISHING A FORMAL STEERING GROUP, A RECENT MEETING BETWEEN US REPS AND SELECTED G-77 REPS INDICATED A GENERAL RECOGNITION BY G-77 MEMBERS OF THE NEED FOR AT LEAST AD HOC LIMITED GROUPS.

12. SECTION 911 OF TAX CODE (LIMITED OFFICIAL USE)

THE SENATE FINANCE COMMITTEE VOTED TWO MORE YEARS DELAY, THROUGH 1978, IN THE TOUGHER TAX TREATMENT OF AMERICAN CITIZENS LIVING ABROAD THAT CONGRESS ADOPTED IN 1976. IF THE FULL SENATE APPROVES, THIS AND OTHER AMENDMENTS TO THE TAX REFORM ACT OF 1976 WILL GO TO HOUSE-SENATE CONFERENCE. PASSAGE, WHICH APPEARS TO HAVE STRONG SUPPORT

(FOR A ONE YEAR DELAY), WILL PERMIT AMENDMENT TO SOFTEN THE 1976 LAW. AN ADMINISTRATION BILL, SCHEDULED TO BE CONFIDENTIAL

PAGE 08 STATE 032540

INTRODUCED THIS WEEK, WOULD PROVIDE DEDUCTIONS FOR HOUSING, EDUCATION, AND HOME LEAVE (OR R AND R) EXPENSES,

BUT NOT COST OF LIVING ALLOWANCES, OR, AS AN ALTERNATIVE,
EXCLUSION OF THE LAST 15,000 DOLLARS OF FOREIGN SOURCE
EARNED INCOME. (THE BILL DOES NOT DEAL WITH SECTION 912,
TAXATION OF OFFICIAL AMERICANS ABROAD.)

VANCE

CONFIDENTIAL

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: Z
Capture Date: 26 sep 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 07 feb 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE032540
Document Source: ADS
Document Unique ID: 00
Drafter: EA/EP:STAFF:SRP
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Expiration:
Film Number: D780057-1100
Format: TEL
From: STATE
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197802120/baaafbtel
Line Count: 280
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Message ID: 8d9bb5cf-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: ONLY
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 06 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3475054
Secure: OPEN
Status: NATIVE
Subject: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT FEBRUARY 7, 1978
TAGS: EGEN, ECON, XC, XE, XP
To: ALL EAST ASIAN AND PACIFIC DIPLOMATIC POSTS
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/8d9bb5cf-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014